An Overview of
The Budget and Economic Outlook:
2020 to 2030

A Joint Seminar by the Congressional Budget Office
and the Congressional Research Service

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For more details, see www.cbo.gov/publication/56020.
The Congressional Budget Office
CBO’s Role

To provide the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process
CBO’s Process for Developing the Budget Baseline
What Is CBO’s Baseline?

- A detailed projection for the current year and the ensuing 10 years of federal spending, revenues, and the resulting deficits and surpluses

- Based on CBO’s economic forecast

- Incorporates the assumption that current laws governing taxes and spending generally remain in place

- Not a forecast of future budgetary outcomes; those depend on future Congressional action and other factors

- Generally provided two or three times a year

- Reported in the annual *Budget and Economic Outlook* and subsequent reports
How Is the Baseline Constructed?


- A key law is the Balanced Budget and Emergency Deficit Control Act, section 257.
  - Defines the baseline
  - Sets out rules for projecting spending and revenues
  - Requires an assumption of full funding for entitlements
  - Directs the treatment of expiring programs and certain excise taxes
How Do CBO and the Congress Use the Baseline?

- A benchmark for measuring the budgetary effects of proposed changes in federal revenues and mandatory spending

- Basis for:
  - Cost estimates for proposed legislation
  - CBO’s analyses of the President’s annual budget
  - CBO’s budget options volume
  - Other reports (including those describing CBO’s long-term budget projections)
  - Assessments of multiyear budget trends

- Often a starting point for budget resolutions
CBO’s Current

Budget and Economic Outlook
Baseline Projections

- Deficits and debt
- The economy
- Revenues
- Spending
- Policy alternatives
Deficits and Debt
When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts.
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Federal Debt Held by the Public

Percentage of Gross Domestic Product

- Civil War
- World War I
- World War II
- Great Depression
- Projected

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Changes in CBO's Baseline Projection of the 10-Year Deficit Since August 2019

Trillions of Dollars

- 10-Year Deficit in CBO's August 2019 Baseline: 12.2
- 10-Year Deficit in CBO's January 2020 Baseline: 12.4

Contributions to the change:
- Reductions in Revenues Under the Further Consolidated Appropriations Act, 2020: 0.4
- Technical Increases in Projected Medicare Spending: 0.3
- Reductions in Net Interest Spending Because of Lower Interest Rates: -0.4
- Other Legislative, Economic, and Technical Changes: -0.1
The Economy
Real GDP and Real Potential GDP

Percentage Change

Real GDP

Real Potential GDP

Projected

The Output Gap

Percentage of Potential GDP

-6
-4
-2
0
2


Projected

Output Gap
Composition of the Growth of Real Potential GDP

Percentage Change

<table>
<thead>
<tr>
<th>Period</th>
<th>Real Potential GDP</th>
<th>Potential Labor Force</th>
<th>Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950–1973</td>
<td>4.0</td>
<td>1.6</td>
<td>2.5</td>
</tr>
<tr>
<td>1974–1981</td>
<td>3.1</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td>1982–1990</td>
<td>3.3</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>1991–2001</td>
<td>3.2</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>2002–2007</td>
<td>2.6</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>2008–2019</td>
<td>1.6</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>2020–2024</td>
<td>2.0</td>
<td>1.5</td>
<td>0.5</td>
</tr>
<tr>
<td>2025–2030</td>
<td>1.7</td>
<td>1.4</td>
<td>0.3</td>
</tr>
</tbody>
</table>
The Unemployment Rate and the Natural Rate of Unemployment
Inflation
Interest Rates

Percent

0 2 4 6 8


Projected

10-Year Treasury Note Rate

3-Month Treasury Bill Rate
Revenues
# Changes in Projected Revenues From 2020 to 2030

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Taxes</td>
<td>8.1</td>
<td>9.5</td>
<td>1.4</td>
<td>Expiration of certain provisions of the 2017 tax act after 2025; real bracket creep</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>5.9</td>
<td>5.9</td>
<td>*</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>1.1</td>
<td>1.3</td>
<td>0.2</td>
<td>Scheduled changes in tax rules enacted in the 2017 tax act</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>1.4</td>
<td>1.2</td>
<td>-0.1</td>
<td>Repeal of a tax on health insurance providers</td>
</tr>
</tbody>
</table>

* = between zero and 0.05 percentage points.
Reasons for the Growth of Individual Income Tax Receipts in CBO’s Baseline Projections

Percentage of Gross Domestic Product

- Increases in Individual Income Tax Revenues
- Expiration of Tax Provisions After 2025
- Real Bracket Creep and Related Effects
- Other Factors
Outlays, Revenues, and Tax Expenditures in 2020

Percentage of Gross Domestic Product

Outlays

Revenues

Tax Expenditures

- Mandatory
- Discretionary
- Net Interest

- Individual Income Tax
- Payroll Tax
- All Other

- Corporate Income Tax Expenditures
- Payroll Tax Expenditures
- Individual Income Tax Expenditures
Spending
Federal Outlays, by Category

Percentage of Gross Domestic Product

- Mandatory
- Discretionary
- Net Interest

Projected: 15.2%
Net Interest: 2.6%
## Changes in Projected Outlays From 2020 to 2030

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2030</th>
<th>Change (Percentage points)</th>
<th>Major Reasons for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>4.9</td>
<td>6.0</td>
<td>1.1</td>
<td>Aging of the population</td>
</tr>
<tr>
<td>Major Health Care Programs*</td>
<td>5.4</td>
<td>7.0</td>
<td>1.6</td>
<td>Aging of the population; rising costs of health care</td>
</tr>
<tr>
<td>Other Mandatory Spending</td>
<td>2.6</td>
<td>2.2</td>
<td>-0.4</td>
<td>Inflation rate is less than nominal GDP growth</td>
</tr>
<tr>
<td>Discretionary Spending</td>
<td>6.4</td>
<td>5.6</td>
<td>-0.8</td>
<td>Caps on funding; inflation rate is less than nominal GDP growth</td>
</tr>
<tr>
<td>Net Interest</td>
<td>1.7</td>
<td>2.6</td>
<td>0.8</td>
<td>Accumulating debt; rising interest rates</td>
</tr>
</tbody>
</table>

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a. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, premium tax credits, and related spending.